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SUPREME COURT, U.S.

No. 98-149

In The
Supreme Court of the United States

COLLEGE SAVINGS BANK,

Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITIONER'S REPLY BRIEF

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ..... *ii*

I. CONGRESS, ACTING PURSUANT TO ITS POWERS UNDER SECTION FIVE OF THE FOURTEENTH AMENDMENT, VALIDLY ABROGATED THE STATES' IMMUNITY UNDER THE ELEVENTH AMENDMENT TO ALLOW STATES TO BE BROUGHT INTO FEDERAL COURT FOR VIOLATIONS OF § 43(a) OF THE LANHAM ACT 1

II. THE COURT OF APPEALS FINDING THAT FLORIDA PREPAID'S PROPRIETARY ACTIVITIES ARE NOT WITHIN THE PARDEN DOCTRINE SHOULD BE REVIEWED BY THIS COURT 9

CONCLUSION 10

TABLE OF AUTHORITIES

U.S. Constitution

Eleventh Amendment ..... passim
Fourteenth Amendment ..... passim

Cases ***Page***

Baker v. McCollan, 443 U.S. 137 (1979) 4

Board of Regents v. Roth, 408 U.S. 564 (1972) 7

Bonito Boats, Inc. V. Thunder Craft Boats, Inc.
489 U.S. 141 (1989) 3

Chavez v. Arte Publico Press
139 F.3d 504 (5th Cir. 1998) 6, 9

Chavez v. Arte Publico Press
____ F. 3rd ____, revised (1998 WL685623)
reh'g granted 6, 7

City of Boerne v. Flores, 117 S. Ct. 2157 (1997) 5, 8

City of Rome v. United States, 446 U.S. 156 (1980) 5

College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board
148 F.3d 1355 (Fed. Cir. 1998) 7

Daniels v. Williams, 474 U.S. 327 (1986) 4

Duplex Co. v. Deering, 254 U.S. 443 (1920) 2, 7

Estelle v. Gamble, 429 U.S. 97 (1976) 4

Fitzpatrick v. Bitzer, 527 U.S. 445 (1976) 5

Goldberg v. Kelly, 497 U.S. 254 (1997) 7

Hegeman Farms Corp. v. Baldwin
298 U.S. 163 (1934) 3

Katzenbach v. Morgan, 384 U.S. 641 (1996) 4, 6

Seminole Tribe of Florida v. State of Florida
517 U.S. 44 (1996) 5, 7, 9

Seminole Tribe of Florida v. State of Florida
11 F.3d 1017 (11th Cir. 1994), aff'd,
517 U.S. 44 (1996) 8

Stanfield v. Osborne Industries, 52 F.3d 867 (10th Cir.)
cert. denied, 516 U.S. 920 (1995) 3

Statutes

Lanham Act, 15 U.S.C. §§ 1051 *et seq.* ..... passim

Other Authorities

*1*A L. Altman, *Callmann on Unfair Competition, Trademarks and Monopolies* (4th ed. 1994). 2

W. Page Keeton et al., *Prosser and Keeton on the Law of Torts*, § 130 (5th ed. 1984) 2, 3

I. Congress, Acting Pursuant To Its Powers Under Section Five Of The Fourteenth Amendment, Validly Abrogated The States' Immunity Under the Eleventh Amendment To Allow States To Be Brought Into Federal Court For Violations of § 43(a) of the Lanham Act.

Florida Prepaid and the United States take the position that the Court of Appeals was correct in finding that Congress acted beyond its constitutional power under Section Five of the Fourteenth Amendment in enacting the Trademark Remedy Clarification Act ("TRCA"),[1] to the extent that the Act abrogated the Eleventh Amendment to allow the states to be brought into federal court for violations of that portion of § 43(a) of the Lanham Act proscribing false advertising of a competitor's own product. The ability to sue a competitor for falsely describing its product, with the resulting competitive harm, is a central purpose of § 43(a), which Congress clearly intended to apply to the states by its enactment of TRCA. As is demonstrated by this case, and other cases seeking to uphold Congress' abrogation enactments, the states are engaging in widespread activity in competition with the private sector. The Court of Appeals' decision, if allowed to stand, will permit the states to engage in false advertising about their own products without fear of being held responsible for the deprivation of revenue and profits such false advertising causes.[2]

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[1] Pub. L. No. 102-542, 106 Stat. 3567 (1992).

[2] The Court of Appeals distinguished between § 43 (a) violations consisting of misrepresentation of one's own goods and services and misrepresentation of a competitor's goods and services. The harm to property interests caused by both types of misrepresentations, however, is identical. *See* Petition at 21, 22.

Both Florida Prepaid and the United States ignore the breadth of the interests found by this Court to be within the scope of the property and liberty rights protected by the Fourteenth Amendment, as shown by the decisions cited by CSB in its petition. CSB Petition at 17-20. This Court has recognized unequivocally that a "business . . . is a property right, entitled to protection against unlawful injury or interference . . . " *Duplex Co. v. Deering*, 254 U.S. 443, 465 (1920). The Court of Appeals' decision constitutes an unprecedented restriction on the scope of the property rights this Court has found to be protected by the Fourteenth Amendment.

The United States argues that "Congress did not purport to create a property right in being free from" false advertising. United States Brief at 5. Attempting to examine what Congress "purported" to create in the Lanham Act or any other enactment of Congress is neither fruitful nor determinative. The nature of the rights should be determined by the historical application and meaning of those rights as determined by the Congress and the courts. What Congress created by its adoption of the Lanham Act was an amalgam of rights including those embodied in § 43(a). The section provides a source of relief for a competitor whose revenues and profits, *i.e.* whose property, has been damaged by false advertising.

The United States relies upon a statement in *Callmann*[3] for the proposition that unfair competition does not involve a violation of property rights. United States Brief at 5. This conclusion is at odds with *Prosser and Keeton on the Law of*

[3] 1A L. Altman, *Callmann on Unfair Competition, Trademarks and Monopolies* (4th ed. 1994).

Torts, § 130 at 1015 (5th Ed. 1984) and the decisions of the judiciary, including this Court, that the basis of jurisdiction for unfair competition is the protection of property rights. *See* Petition at 16, 17.

The United States also relies upon *Hegeman Farms Corp. v. Baldwin*, 298 U.S. 163, 170 (1934). ("The appellant's grievance amounts to this, that it is operating at a loss, that other dealers more efficient, or economical or better known to the public may be operating at a profit.") That case has nothing to do with the issue before this court. CSB is not attempting to protect itself against the hazards of competition. It is attempting to make use of the decision made by Congress that private entities should be permitted to protect themselves against unfair competition by the states. Congress enacted § 43(a) of the Lanham Act to protect the competitive process. Congress later enacted TRCA in recognition of the fact that the protections of the Act needed to be applied to the states to be fully effective in achieving its purposes.

The *Bonito* decision cited by the United States also is inapplicable. It may be true that the common law tort of unfair competition has as its "general concern" the protection of "*consumers* from confusion as to source." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989). Section 43(a) of the Lanham Act, however, gives rights of action solely to competitors, not consumers. ("The intent of the Chapter is to regulate Commerce . . . to protect persons engaged in such commerce against unfair competition.") 15 U.S.C. § 1127. *See also Stanfield v. Osborne Industrials*, 52 F.3d 867,873 (10th Cir.) cert. denied, 516 U.S. 920 (1995). ("Thus, to have standing for a false advertising claim, the

plaintiff must be a competitor of the defendant and allege a competitive injury.")

The cases cited by the United States to support its argument that Congress cannot validly abrogate the states' immunity to protect the monetary property of private businesses against unfair competition construe the provisions of 42 U.S.C. § 1983.[4] An unstated, but inescapable, premise of those arguments is that the validity of Congress' exercise of its Section Five power is dependent upon a judicial determination that the underlying action by the state is unconstitutional. The provisions of § 1983 authorize claims brought directly for violations of the Constitution. Thus, the construction by this Court of the scope of that section differs fundamentally from determining the authority of Congress under Section Five of the Fourteenth Amendment.

This Court's decision in *Katzenbach v. Morgan*, 384 U.S. 641, 648, 651 (1996) disposes of the issue.

> A construction of § 5 that would require a judicial determination that the enforcement of the state law precluded by Congress violated the Amendment, as a condition of sustaining the congressional enactment, would depreciate both congressional resourcefulness and congressional responsibility for implementing the Amendment
>
> * * *

[4] *Daniels v. Williams*, 474 U.S. 327 (1986); *Baker v. McCollan*, 443 U.S. 137 (1979); and *Estelle v. Gamble*, 429 U.S. 97 (1976). United States Brief at 5 - 6.

> Correctly viewed, § 5 is a positive grant of legislative power authorizing Congress to exercise its discretion in determining whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment.

See also Fitzpatrick v. Bitzer, 527 U.S. 445 (1976); Ex parte Virginia, 100 U.S. 339 (1880); *City of Boerne v. Flores*, 117 S. Ct. 2157, 2163 (1997); and *City of Rome v. United States*, 446 U.S. 156, 177 (1980). In this Court's decision in *Seminole Tribe* these principles were again reaffirmed. *Seminole Tribe of Florida v. Florida, 517 U.S. 44 (1996).*[5]

Florida Prepaid argues that any property interest created by Congress, acting pursuant to its Article I powers, is beyond the power of Congress under Section Five of the Fourteenth Amendment. Florida Prepaid Brief at 5-11. The argument, if accepted, would severely limit, if not effectively destroy, the power of Congress under Section Five. Florida Prepaid contends that permitting Congress to establish property rights which can be enforced against the states pursuant to Section Five powers would permit the Congress to establish the substantive scope of the Fourteenth Amendment.

This Court, however, repeatedly has held that the enforcement power of Congress under Section Five of the

[5] This Court's decision in *City of Boerne*, declaring certain Congressional actions to be unconstitutional is founded primarily upon the fact that the Congress was attempting to make unconstitutional under the Fourteenth Amendment conduct that this Court previously had found to be constitutional, i.e. Congress attempted to define the substantive scope of the Amendment. *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997).

Fourteenth Amendment reaches "practices that in of themselves do not violate § 1 of the Amendment...." *City of Rome v. United States,* 446 U.S. 156, 177 (1980). Section Five grants to Congress "the same broad powers expressed in the Necessary and Proper Clause" of Article I. *Katzenbach v. Morgan*, 384 U.S. 641, 650 (1966).

Acceptance of the argument advanced by Florida Prepaid would render Congress' power under Section Five essentially superfluous, *i.e.* it would limit Congress' role to the enactment of legislation that only mirrors that which the judicial branch has found to be prohibited by the Constitution, standing alone. Florida Prepaid's argument "would confine the legislative power . . . to the insignificant role of abrogating only those state laws that the judicial branch was prepared to judge unconstitutional, or of merely informing the judgment of the judiciary by particularizing the 'majestic generalities' of § 1 of the Amendment". *Katzenbach,* 384 U.S. at 648-649.

To support its argument that Congress has no power under Section Five to abrogate the states' immunity for actions involving property rights created by Congress under Article I, Florida Prepaid relies heavily upon *Chavez v. Arte Publico Press,* 139 F.3d 504 (5th Cir. 1998), reh'g granted. That case involves the constitutionality of abrogating the states immunity under both the Copyright Act and § 43(a) of the Lanham Act. Subsequent to the filing of Florida Prepaid's brief, however, there have been two important developments in *Chavez.* First, the Fifth Circuit will rehear the case, *Chavez v. Arte Publico Press*, ___ F.3d ___ (1998 WL 685623) (5th Cir. 1998), reh'g granted. Second, Judge Wisdom has now dissented. His dissent adopts an interpretation of Congress' Section Five powers that supports

CSB's petition. *Chavez,* ___ F.3d ___, (1998 WL 685623 at 13). ("Congress has authority to protect [property rights created by Congress under its Article I powers] by enacting legislation under Section 5.") That position is virtually identical to that adopted by the Federal Circuit. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1355 (Fed. Cir. 1998), petition for cert. pending, No. 98-531.

By their nature, property interests are not created by the Constitution. *Board of Regents v. Roth*, 408 U.S. 564, 577 (1972).

> Property interests, of course, are not created by the Constitution. Rather, they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law -- rules or understandings that secure certain benefits and that support claims of entitlement to those benefits.

This Court has recognized property rights created by state laws, e.g., *Goldberg v. Kelly*, 497 U.S. 254 (1997), and has also recognized that certain property rights, such as those of a business, exist as a matter of common law. *Duplex Co. v. Deering,* 254 U.S. 443, 465 (1920). It follows that Congress can protect those property rights by exercising it Section Five power to provide a remedy in the federal courts for deprivations caused by the states.

Florida Prepaid argues that the long line of cases recognizing that the Fourteenth Amendment protects business interests, if followed, would have compelled a different result in *Seminole Tribe* because a casino is a

business. Florida Prepaid Brief at 12-13. The statute invalidated in *Seminole Tribe*, however, bears no relationship to the statute here in issue. The State of Florida had passed no law seeking to regulate the gambling activities of Indian Tribes, nor had it acted in the commercial sphere in a way that violated any gambling rights of the Indian Tribes. The State was purely passive, and had not through legislative, executive, judicial, or any other means infringed the business property interests of the Seminole Tribe. As found by the Eleventh Circuit, the Act merely "establishes the process and standards by which gambling may be conducted on Indian lands," and thus "creates no liberty or property interests and cannot implicate the Fourteenth Amendment." *Seminole Tribe of Florida v. State of Florida*, 11 F.3d 1017, 1025 (11th Cir. 1994), aff'd, 517 U.S. 44 (1996).

This Court has held that there must be a proportionality and congruence between the means employed by Congress to achieve its legislative objective and the harm to be prevented. *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997). Congress' enactment of TRCA meets the requirement of proportionality and congruence. Congress has chosen to require the states to be answerable in the federal courts for unfair trade practices proscribed by § 43(a) of the Lanham Act, such as false advertising. Surely, in an era in which the states are entering ever wider areas affecting the commerce of this country, this does not constitute overreaching by Congress. A state is merely made subject to the same consequences as a private party, *i.e.* damages and injunctive relief. Florida Prepaid offers no sound reason for not subjecting the states to the same standards that govern private parties.

II. The Court of Appeals' Finding That Florida Prepaid's Proprietary Activities Are Not Within the *Parden* Doctrine Should be Reviewed by This Court.

The United States disagrees with the Court of Appeals' finding that Florida Prepaid's "marketing of its Prepaid tuition plan is a core state function that falls outside the legitimate scope of the *Parden* waiver doctrine." United States Brief at 8. Nevertheless, the United States argues that this issue "does not warrant" this Court's review. *Id.* at 9. The position is inexplicable. As stated in CSB's petition, the "Court of Appeals' interpretation would deprive the *Parden* doctrine of meaning since virtually any activity undertaken by the state could be interpreted as assisting some function deemed to be important to a state government." Petition at 26.

Florida Prepaid's opposition is premised primarily upon the argument that *Parden* has been overruled by implication by this Court's decision in *Seminole Tribe*. Florida Prepaid Brief at 19-27. Florida Prepaid characterizes the *Parden* doctrine as a "dead letter," relying heavily upon *Chavez v. Arte Publico Press*, 139 F.3d 504 (5th Cir. 1998) reh'g granted. Florida Prepaid Brief at 25. In his dissent, Judge Wisdom concludes that the *Parden* doctrine remains valid. *Chavez*, (1998 WL 685623 at 13).

Florida Prepaid also challenges the Court of Appeals' finding that TRCA satisfied the requirement of the *Parden* doctrine that the states be given notice. Florida Prepaid Brief at 18, 19 n.9. TRCA, however, had as its sole purpose making the states answerable for violations of the Lanham

Act. Thus, Florida Prepaid's position of a failure of notice lacks credibility.

In sum, the validity of the *Parden* doctrine and its proper scope are ripe for review and CSB's petition to review those issues should be granted.

Conclusion

For the above reasons and those stated in CSB's petition, a writ of certiorari to the Third Circuit should be issued.

Respectfully submitted,

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